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POSTAL REGULATORY
COMMISSION

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

RE: 10-Year Rate System Review
Docket No. RM2017-3
Order No. 4258

Dear Commissioners,

As a representative of The Calmark Group and a member of Idealliance whose livelihood depends on a sustainable mail industry, I am writing to express my strong opposition to the rate-making framework you have proposed as a result of your 10-year review of the CPI-based annual price cap established under the *Postal Accountability and Enhancement Act*. Last year, The Calmark Group entered over 500 million pieces of marketing mail for our clients. Over 150 million pieces were for nonprofit organizations

By the Postal Regulatory Commission's (PRC) conservative estimates, which assume a 2% CPI, this proposal would raise Marketing Mail letters (99% of our volume) by more than 34% over five years. As we talk to our customers, who use the mail for communication and commerce, these proposed increases have already encouraged them to consider reducing volume by targeting and accelerating their migration to digital channels and alternate delivery methods. Many of our nonprofit clients experienced increases of over 4% in 2017 followed by increases in excess of 6% in 2018. As a result of these increases many of our nonprofit clients plan to reduce their volumes this year. Some decreases will be as much as by 10%. Should the new CPI+2 go into effect we would expect even larger decreases in future volume.

The PRC rate proposal would give the U.S. Postal Service use-it-or-lose-it authority, which it most certainly would use in full, to raise rates by at least 2% above the CPI for each market-dominant rate class for five years. Furthermore, the rate proposal allows an additional 1% for adhering to service standards and productivity targets. The proposed service standards and productivity targets increase does not go far enough to encourage operational savings or achievement of service performance for the Postal We believe postal increases should be based as an incentive by attaining service performance improvements defined and overseen by the PRC.

The PRC should understand the transformation the mail supply chain has undergone and the way the pricing proposal will undermine the mail supply chain:

1. Rate increases by the Postal Service have been moderated by strategic investments made by the mailing industry to support increasingly complex mail preparation to qualify for the most preferred postage rates through incentive programs such as commingling, co-palletization, co-mailing, and palletization to name a few. Most mail and print service providers and logistics and transportation companies have made prudent capital investments to reduce costs and improve workflow and throughput efficiencies. The PRC proposal destroys the ROI assumption on which mail supply chain partners have made capital investments.

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2. Margins for mail and print service providers are declining and have limited ability to absorb postage increases. According to the *Idealliance 2017 State of the Industry Report,* less than one-third of mail and print service providers surveyed have been able to raise prices even modestly (below the rate of CPI) over the past year, limiting cost pass through and putting intense pressure on margins.

3. Through cost containment efforts mail and print service providers have helped to mitigate Postal Service rate increases experienced by mail owners. Mailpiece manufacturing has decreased while postal costs have increased to become now the largest portion of total expense of a mailpiece. In addition, today freight costs are projected to increase with major capacity issues, paper prices are anticipated to increase, and ink suppliers have announced increases. The PRC should be mindful of the "total combined cost" of a mailpiece. Continuing the ever increasing postal cost will harm the stability of the mail supply chain.

The PRC's proposal provides the Postal Service broad pricing flexibility at a time when already tight margins and pricing uncertainty could easily destabilize the mail supply chain and encourage users of the mail to seek alternative channels for distribution.

The proposal is not in the best interests of the Postal Service or the mail supply chain as a whole. By damaging the mail supply chain, it also threatens the Postal Service's source of revenue. Furthermore, the current CPI cap system incents the Postal Service to reduce costs and increase efficiency—the first objective of the rate cap established by Congress. Now, as economists expect inflation to start to increase, is not the time to reduce the incentives for the Postal Service to become leaner and more efficient.

Finally, these massive rate increases are completely unnecessary. Of the Postal Service's accumulated $59.113 billion loss, $54.8 billion was due solely to the requirement that it prefund its financially healthy retiree health plan. Congressional action to eliminate this harmful requirement is what is needed, not excessive rate increases that will cripple this industry.

For these reasons, I urge you to reconsider your decision to impose the proposed rate framework, and instead focus on rate increases specifically tied to cost efficiencies of the Postal Service. As a business, we have fundamentally reduced our costs and created quality products and services to meet new and evolving customer needs and current business dynamics. Your proposed rule puts the onus for cost reduction on our business, not on the Postal Service. We would suggest that your work should follow the Hippocratic Oath: "First, do no harm." Your proposal would do fundamental and long-lasting harm to the mail supply chain and the viability of mail as a central channel for communication and commerce.

Regards,

Stephen Colella
Vice President Postal Affairs